Alabama Grocer

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2017, ISSUE 3

ALABAMA GROCERS ASSOCIATION

DRIVING THE INTERNET OF EVERYTHING

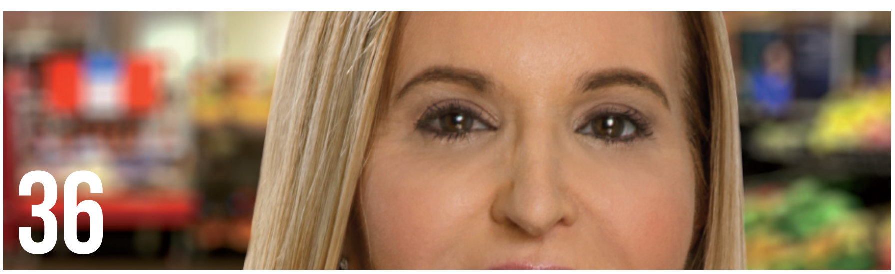
FEATURES

The IoT is Driving the Integration of Everything

In real estate the mantra is: Location. Location. Location. for retailers, regardless of segment, the mantra for 2017 is: Integration. Integration. Integration.

Mergers and Acquisitions – Who's Next?

The year 2017 is not likely to be record-setting for merger and acquisition activity in the grocery industry now that mega-mergers like Ahold/Delhaize, Walgreens/Rite Aid and Albertsons/Safeway are complete.



15 Minutes With Deborah Weinswig

Deborah Weinswig is Managing Director of Fung Global Retail and Technology who travels extensively and is considered one of the top analysts in the field of retail innovation and technology. We caught up with her between flights to talk about everything retail.

COLUMNS

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CHAIRMAN'S MESSAGE

SUMMER MEANS CONVENTION SEASON

PETER GREGERSON, JR.
GREGERSON'S FOODS
AGA CHAIRMAN OF THE BOARD

THE AGA CONVENTION IS RAPIDLY APPROACHING. WITH SO MUCH TO DO, IT'S EASILY THE BUSIEST TIME OF THE YEAR.

Can you believe it is June, already? Soon many families will start taking vacations, enjoying the beginning of summer and hopefully buying a lot of groceries. As we grocers are gearing up for summer, I know the Association Office is gearing up for a productive summer as well!

Summer for your Association Office means one thing, CONVENTION SEASON. This is the Association's largest fundraiser, representing over half of our annual income. With so many details that go into one event, it is by far the busiest time of year, hands down.

With the guidance from Keith Lusk of Golden Flake, AGA Convention Chairman and his committee this year is shaping up to be one of our best yet! The business forum is packed with four must-attend seminars. We will hear from Thom Singer on connecting with people in a gadget crazed world.

During his keynote Singer will talk about how in today's distracted work environment there is a disconnect between social media "likes," "links," "shares" and "follows" and real meaningful business connection. Thom will work to help us to get back to the basics of relationships that lead to better opportunities and more sales. I think this is something we all need to hear.

We will also hear from FBI Special Agent Eric Pulwicz who will give attendees an Active Shooter Seminar. He will define what is an active shooter and what mass killing means, go over a brief history of active shooter incidents, explain why active shooter phenomenon is not going away, supported by the FBI active shooter study, and things you can do (indicators, run, hide, fight, etc).

With all the active shooter situations we have seen not just across the nation, but in our own state, this seminar is very timely and a much needed one for our industry.

As you all know the way shoppers purchase items and where they purchase them is changing. We are seeing more and more of our customers turn to online shopping and many retailers are scrambling to find some solutions. We have put together an amazing panel of participants that are here to lend a helping hand and discuss e-commerce.

During this seminar, you will learn why it is important, consumer trends, utilization, ease of access and best practices. Our panelists include Kate Favrow, Corporate Marketing Manager Web & In-Store Marketing Programs for Associated Wholesale Grocers; Steve Weathington, New Accounts Manager, Piggly Wiggly Alabama Distributing Company; John Wilson, Owner, Super Foods Supermarkets and Jimmy Wright, Owner, Wright's Market. Every retailer should attend this panel discussion and start the conversation of e-commerce for your company.

Our last, but maybe most important seminar is e-WIC. Ms. Stacey Neumann, Vendor Management Director of the Alabama WIC Department will join us as we discuss the new online e-WIC rollout.

She will give us a time line for implementation and share how moving the system in 2018 will result in smoother transactions at the register, automatic electronics claim payments and reduce time "in lane" for consumers. The pilot for the program will be February/March 2018 in Montgomery. This is fast approaching and I recommend every retailer come listen to Stacey share vital information.

As you can tell a lot of thought and work went into creating a business forum for our retailer, wholesalers and vendors' alike, there is truly something for everyone. Other than the business session,

> **"SUMMER FOR YOUR ASSOCIATION OFFICE MEANS ONE THING, CONVENTION SEASON. THIS IS THE ASSOCIATION'S LARGEST FUNDRAISER, REPRESENTING OVER HALF OF OUR ANNUAL INCOME."**

we plan on having a lot of time to network and build relationships within our industry. Monday Night will be Casino/ Silent Auction Party and Tuesday Night we will hear from football great and radio personality Mr. Al Del Greco.

We will also have a golf tournament on Monday and do not forget to visit the Exhibit Hall on Tuesday immediately following the business session.

If you have not already marked your calendar, please do so. The 2017 AGA Convention will be July 23-26 at Sandestin Golf & Beach Resort.

Early bird price reduction registration will end on June 1st and the hotel cut-off date is June 26. Be sure to go ahead and register and book your rooms. You can do so online at www.AlabamaGrocers.org.

For the grocery industry in Alabama, this is a MUST ATTEND event!

I look forward to seeing each and every one of you at the Convention in July!

Mark Your Calendar!

Alabama Grocers Association
2017 Annual Convention

July 23-26, 2017

Sandestin Golf &
Beach Resort

Miramar Beach, FL

PRESIDENT'S MESSAGE

ADVOCACY – AN IMPORTANT PART OF MEMBERSHIP

ELLIE SMOTHERMAN TAYLOR
PRESIDENT
ALABAMA GROCERS ASSOCIATION

A DELEGATION OF ALABAMA GROCERS RECENTLY ATTENDED THE FMI WASHINGTON D.C. FLY-IN. IT WAS A TREMENDOUS OPPORTUNITY TO MEET WITH OUR ELECTED OFFICIALS.

Our trips to Washington are always exciting but especially so this year. The House and Senate were in anticipation on the vote of the Healthcare Bill to repeal and replace parts of the Affordable Care Act commonly referred to as Obamacare.

Congressmen were giving us insight into the bill and commenting that even President Trump was making personal calls to Congressmen on their cell phones to make the vote happen. We were there to discuss not only healthcare but also Debit and Tax Reform and how important those issues are for our industry.

AGA delegation met with U.S. Representative Bradley Byrne (R-Mobile) during FMI's Washington Fly-In event.

When the Durbin Amendment in the Dodd-Frank Wall Street Reform legislation was passed in 2010, grocers were paying between $.43-$.46 cents for a debit transaction. As part of this amendment, it gave the Federal Reserve the responsibility of providing oversight and ensuring debit rates were "reasonable and proportional."

After extensive information gathering, the Federal Reserve Board of Directors put in place a cap and set rates at $.21 cents plus a one-cent fraud prevention fee and .05 percent transaction fee to cover banks' fraud losses, which resulted in an average of 24 cents. It is estimated that this has saved the retail industry over $6 billion a year. It also required that at least two debit routing networks be available for each debit transaction, which brought competition, choice, innovation and greater availability into the market.

As written in its current form, H.R. 10, the Financial Choice Act, would take away these reforms costing the retail industry billions a year in debit transaction costs.

On the Tax Reform side, we discussed serious and meaningful tax reform and included the same tax rates for both C-corporations and pass-through entities, which represent nearly 95% of the businesses filing in the United States.

The border adjustment tax was also a concern for the grocery industry as many goods such as coffee and bananas are not produced in the U.S. If BAT goes into place, American consumers may face significantly higher food prices – as much as 20 percent.

We could not forget in our Tax Reform discussion the Estate Tax, which affects so many of our members as well as LIFO, the last-in, first-out method of inventory and Marketplace fairness, to hold online retailers accountable to the same levels of taxation as brick and mortar stores.

As far as healthcare goes, it remains to be seen if President Trump can push through this important legislation through the U.S. Senate.

The plan the U.S. House passed gives several needed reforms. It reduces the penalties under the individual and employer mandates by taking them to $0 and would be retroactive back to January 1, 2016.

It will increase contribution limits for Health Savings Accounts and Flexible

"AS FAR AS HEALTHCARE GOES, IT REMAINS TO BE SEEN IF PRESIDENT TRUMP CAN PUSH THROUGH THIS IMPORTANT LEGISLATION THROUGH THE U.S. SENATE."

Spending Accounts and will increase the annual HAS contribution limit to equal the out-of-pocket limitation for higher deductible plans as well as repealing the annual limitation on an individual's contributions to an FSA.

It also eliminates the limitation that a health FSA, HRA or HAS could only reimburse over-the-counter medications if prescribed by a physician. It will further delay the 40 percent Cadillac Plan Tax on high-cost employer-sponsored health coverage until January 1, 2026, and repeal the ACA's income-based premium tax credits and replace them with age-based, refundable tax credits for individuals and families who do not receive insurance through work or a government program to use for the purchase of insurance.

We will continue to watch this legislation as it unfolds in Washington and advocate for the grocery industry.

On a personal note, during our Washington trip, I received the Donald H. MacManus Award for leadership and dedication to the grocery industry from the Food Marketing Institute. It was a tremendous honor and I was very humbled to receive it.

As I said in my comments, we as an Association could not do what we do on the state and federal levels without the hard work of members.

From testifying in Committee to calling your local representatives to supporting our fundraisers, it is our members that make what we do possible.

I consider this award an Association award that gives national recognition to the great work all of us do on behalf of our industry in Alabama. Thank you for allowing me to serve as your President.


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ONE FOR THE BOOKS

PATRICK MCWHORTER
LEGISLATIVE REPRESENTATIVE
THE MCWHORTER GROUP

THIS YEAR'S LEGISLATIVE SESSION WILL GO DOWN IN THE BOOKS AS ONE OF THE MOST UNUSUAL IN MEMORY, AND THAT'S SAYING SOMETHING.

The 2017 legislative session mercifully ended May 19. It was one of the most unique and unusual sessions that I can recall.

Hard to believe, the state budgets didn't even rank in the upper category of issues being fought over, as compared to the past couple of years. Leadership had wisely left $105 million from the funds received from the BP Oil Spill settlement last year to balance the General Fund's Medicaid budget, and they reserved another $90 million from this year to try to avoid another crisis next year.

Every other department was level-funded. The Education budget saw a slight increase in revenue over last year, and they used most of that to further expand pre-K programs and keep solvent the fund for scholarships for military veterans. Both budgets were sent to the Governor with little fanfare.

But literally everything else was a major battle. Federal courts had ruled the Legislature had to redraw their House and Senate districts, agreeing with the Legislative Black Caucus that minorities in 12 districts were "packed," and thus minorities were unable to build coalitions with white voters.

The Republican majority redrew most of the state's districts with very little consultation with black members. That resulted in them forcing the bills to be read at length. The House version required 16 hours in each house before it could be voted on; the Senate version took about seven hours in each house.

The Black Caucus is threatening to take the new plan back to court, so it may require a special session to resolve, depending on the courts.

In the midst of this fight, one Republican member distributed an email considered by the Black Caucus to be racially insensitive. After substantial delays in session, Speaker Mac McCutcheon succeeded in leading the House in prayer and promised to conduct sensitivity training for all members.

As quoted in *The Montgomery Advertiser*, House Speaker Mac McCutcheon said, "As I move into the next session as Speaker, I hope that it's more dealing with legislative issues than all of the outside stuff, if you will, that we've had to deal with. I think that has added a lot of stress and pressure to the members that this Legislature normally doesn't have to contend with."

All of this is on top of the resignation in disgrace of former Governor Robert Bentley.

Another contentious issue left over from last year was a proposal, originated with former Governor Bentley's administration, to build four new prisons. The bill passed the Senate after major revisions; it allowed local governments to build the prisons and lease them back to the state.

But the House never could agree on a plan that would pass a majority vote. Federal courts are threatening to force the Legislature to make changes, which could also result in a special session later this year.

And an increase in the state's gasoline tax to pay for new infrastructure projects never got out of the House, despite broad support from major business groups. Congressman Mike Rogers was in Montgomery late in the session, and said Alabama has missed out on $2 billion in federal road money for projects because we do not have the funds to match.

The fear is President Trump will pass his proposed trillion-dollar infrastructure plan and we will be unable to match those dollars either.

There were some good things that happened. The public won a major battle to require health insurance companies in Alabama to provide coverage for autism therapies. Despite fierce opposition from Blue Cross/Blue Shield of Alabama, which hired dozens of lobbyists and engaged the Business Council of Alabama to fight the bill, it was approved last week and Governor Ivey signed it into law Friday.

> **“THE FEAR IS PRESIDENT TRUMP WILL PASS HIS PROPOSED TRILLION-DOLLAR INFRASTRUCTURE PLAN AND WE WILL BE UNABLE TO MATCH THOSE DOLLARS EITHER.”**

Unfortunately, it appears that the coverage will only be available to those covered in large groups and Medicaid; about 13 percent of the population. And a judges' ability to override a jury recommendation and sentence a person to death was abolished.

It was a fairly quiet session for the grocery industry. The most notable bill passed was HB 75 by Rep. Ron Johnson. The "Wholesale to Retail Accountability Program" proposes to track sales made by wholesalers to retailers to catch those firms who attempt to avoid paying sales taxes.

The bill has not yet been signed by Governor Ivey, but we expect it to be. SB 316 by Senator Paul Sanford sets delivery license fees at no more than $100 and exempts a business from the purchase of a license if its deliveries do not exceed $5,000 per year and the business has no physical presence in the municipality or police jurisdiction.

Senate Bill 21 by Senator Gerald Dial would require that any over the counter spectacles sold in stores must not have a minus power (-) and may not exceed plus three and one-half diopters (+3.50) and SB 234 by Sen. Bill Holtzclaw clarifies that manufacturers and brewpubs are not required to maintain the name, address or other personal demographic information for certain alcohol sales.

Legislation introduced on behalf of the AGA by Rep. David Faulkner and Sen. Jabo Waggoner became unnecessary when the ABC Director and his staff agreed to allow by regulation retailers to conduct off premise tastings of wine and beer. That regulation is out for public comment and will become effective this summer.

The following bills pertain to the sale of alcohol seven days a week. All must still be signed by Governor Ivey.

- HB 125, Rep. K.L. Brown. Allows the Jacksonville City Council to authorize Sunday alcohol sales.
- HB 322, Rep. Ron Johnson. Allows the City of Lincoln to conduct a referendum on whether to allow Sunday alcohol sales.
- HB 366, Rep. Danny Harrison. Allows the Athens City Council to authorize Sunday alcohol sales.
- HB 391, Rep. Tommy Hanes. Allows Stephenson City Council to authorize Sunday alcohol sales.
- HB 431, Rep. Becky Nordgren. Allows each city within Etowah County to conduct referendum on whether to allow Sunday alcohol sales.
- HB 508, Rep. Reed Ingram. Allows the Elmore County Commission to regulate the sale of alcohol on Sunday in areas outside the corporate limits of a city, and the city councils to regulate within their jurisdictions.
- HB 529, Rep. J.M. Morrow. Allows Florence City Council to authorize Sunday alcohol sales.
- HB 542, Rep. Alan Boothe. Allows Troy to conduct a referendum on whether to authorize Sunday alcohol sales.
- HB 560, Rep. Marcel Black. Allows Tuscumbia City Council to authorize Sunday alcohol sales.
- HB 561, Rep. Marcel Black. Allows Sheffield City Council to authorize Sunday alcohol sales.
- HB 562, Rep. Marcel Black. Allows Muscle Shoals City Council to authorize Sunday alcohol sales.
- SB 351, Sen. Bobby Singleton. Allows Hale County to authorize Sunday alcohol sales.
- SB 410, Sen. Billy Beasley. Allows Eufaula City Council to authorize Sunday alcohol sales.
- SB 412, Sen. Billy Beasley. Allows Clayton City Council to authorize Sunday alcohol sales under certain conditions.

Local tax bills enacted, but not yet signed into law:

- HB 362, Rep. Elaine Beech. Allows Washington County to offer for approval gas tax, sales and use tax, and a lease tax by referendum.
- HB 474, Rep. Connie Rowe. Allows Walker County to propose increase sales and use tax by referendum.
- HB 492, Rep. Alan Baker. Allows Escambia County to enact an increase in sales and use tax.
- HB 547, Rep. A.J. McCampbell. Allows Sumter County to levy additional sales and use tax for hospital.
- HB 572, Rep. Alan Boothe. Allows Pike County to levy additional sales and use tax for hospital.
- HB 592, Rep. Kyle South. Allows Lamar County to levy additional sales and use tax. Constitutional Amendment; requires a vote of the people.
- SB 79, Sen. Trip Pittman. Allows Baldwin County Commission to levy additional sales and use tax.

A number of bills with negative effects on the grocery industry were defeated.

AGA EDUCATIONAL FOUNDATION HOSTS 25TH ANNUAL GOLF OUTING

Bradley Lynam, Keith Lusk, Golden Flake; Wade Payne, Robby Robinson, Food Giant.

Bary Ealy, Don Richardson, Jim Carlo, Coca-Cola Bottling; Greg Waldrop, Gateway Foods.

The Alabama Grocers Education Foundation held its 25th Annual Spring Golf Outing on April 6, 2017, at Inverness Country Club in Birmingham, Alabama.

This tournament included two flights and raised monies for the Alabama Grocers Education Foundation, which funds scholarships to employees and children of employees of Alabama Grocers Association companies.

To date AGEF has awarded over a million dollars because of the tremendous support of our members at golf tournaments such as this one.

The winners of the golf tournament were are follows:

Morning First Place Team: The Lighting Specialties sponsored team - David Toner, Brian Castillo, Nate Stephens and Patrick Jackson. Morning Second Place Team: Ron Murphy, Ken Rush, Courtney Rochell and Todd Butler and Barber's Dairy. Morning Third Place Team: Vernon Price of Supervalu, Jay Holloway of Hometown Market and David Wright and Ron McClellan of Food Outlet. Morning Closest to the Pin: John Gross, Mrs. Stratton's Salads Morning Longest Drive: Jon Bolle of Federated Insurance.

Western Supermarkets Team.

Afternoon First Place Team: Phillip Davis, John Bryant, Jacob Sim and Ken Herron of A&R Supermarkets Afternoon Second Place Team: Don Minor, Bevco Beverages; Greg Wilson, Advantage Solutions and Scott O'Brien, Piggly Wiggly Alabama Distributing Company. Afternoon Third Place Team: Wayne McKnight, Chris Turner, Brad Flinn and Ken Edison of Buffalo Rock Company. Afternoon Closest to the Pin: Ken Herron, A&R Supermarkets; Afternoon Longest Drive: Andy Byars, Byars | Wright.

The Alabama Grocers Education Foundation Golf Outings would not be as successful without the many companies that sponsored this event and contributed their goods.

Associated Grocers of the South Team.

Buddy Guillory, PWADC; Taylor Cox, Blake Johnson, Marcus Wyatt, Flowers Baking Company.

Jay Welborn, B and W Foods; David Bullard, Jerry McCann, Jeff Brown, PWADC.

AGA NEWS

THE WINNERS!
(MORNING)

Morning First Place Team.

Morning Second Place Team.

Morning Third Place Team.

The 2017 Presenting Sponsor was Bimbo Bakeries. Additional sponsors of the April 2017 Spring Tournament included 5 Hour Energy, A&R Supermarkets, Advantage Solutions/Palermo's, Associated Grocers of the South, Associated Wholesale Grocers Gulf Division, Associated Wholesale Grocers Nashville Division, Barber's Dairy, Bevco Beverages, Buffalo Rock/ Pepsi, Bunzl Distribution/Pactiv, Byars | Wright, Coca-Cola Bottling Company United, Inc., Dutch Farms, EDLINCO, Federated Insurance, Flowers Baking Company, Frito-Lay, Golden Flake Snack Foods, Lighting Specialists, Inc, Merrill Lynch, Mission Foods, Mitchell Grocery Corporation, Mrs. Stratton's Salads, Peake & Associates, Piggly Wiggly Alabama Distributing Company, Publix Super Markets Charities, Inc, R.L. Zeigler, Red Diamond, Snyders-Lance, Super-Valu, The Hershey Company, Tyson, United-Johnson Brothers of Alabama, Wells Enterprises.

The next Education Foundation fundraiser will be a Silent Auction at the AGA Convention, July 24-26, 2017, at Sandestin Golf & Beach Resort in Destin, Florida. Please visit www.alabamagrocers.org for more information.

Bill Barrow, Dustin Hornbuckle, Mitchell Grocery; Greg Wilson, Eddy Quinley, Advantage Solutions.

THE WINNERS!
(AFTERNOON)

Afternoon First Place Team.

Afternoon Second Place Team

Afternoon Third Place Team.

AGA NEWS

AGA OUT AND ABOUT

It's been a busy time for the Alabama Grocers Association. AGA members participating in the Food Marketing Institute's annual Day in Washington Fly-in on Capitol Hill.
Congratulations to AGA President Ellie Taylor for being named the 2017 FMI Donald H. MacManus Award recipient. Taylor was recognized for her outstanding leadership and dedication to the grocery industry.

Ellie Taylor, AGA, with U.S. Representative Gary Palmer.

Leslie Sarasin, FMI President and CEO, presenting Ellie Taylor, AGA President, with the 2017 Donald H. MacManus Award.

Wade Payne, Food Giant; Bob Crawford, United Johnson Brothers; Pat McWhorter, The McWhorter Group, Ellie Taylor, AGA, visiting Washington, DC, to lobby on behalf of our members on important issues.

Bob Taylor, Red Diamond; Jessica Brown, AGA; Larry Garrett, Vietti, at the Piggly Wiggly Alabama Distributing Spring Show.

Jessica Brown, AGA, and David Warren, Western Markets, at a March Buy Alabama's Best Sampling Event.

AGA staff and volunteers working registration at the Spring Golf Event.

AGA NEWS

The Alabama Grocers Association wishes to recognize its Diamond and Four Star Sponsors for their generous support of the AGA Annual Convention.

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Vietti Since 1898

IN MEMORIAM: JACK MITCHELL LEAVES LASTING LEGACY

On April 14, 2017, the grocery industry lost a pioneer, friend and mentor, Mr. Jack Mitchell.

Jack Mitchell was born January 7, 1939 in Marshall County, Alabama the son of J.L. and Clara Neil Luther Mitchell.

Jack Mitchell.

In 1945, J.L. Mitchell and his cousin J.B. Hawk purchased Albertville Produce Company, a small wholesale feed and produce business that sold product to rural general stores and small independent grocery stores. In 1955, J.L. Mitchell bought the interest of J.B. Hawk. Mitchell continued to operate as a "fill-in" wholesaler for several years.

After attending Auburn University, Jack returned in 1958 to work for the company full time and by 1961, the company made the decision toward becoming a full-line grocery wholesaler and the name of the company was changed to Mitchell Grocery Corporation. In 1962, a 54,000-square foot distribution center was erected and sales reached nearly $2 million.

Jack was instrumental in developing a voluntary group program to assist and promote the development of independent supermarkets. Through Mitchell Grocery Corporation he furnished support and training to independent stores, similar to that which chain stores receive from their headquarters. In return, the independent retailers purchase the majority of their product from Mitchell Grocery Corporation.

Through Jack's leadership, guidance and support, hundreds of individuals have been helped in becoming very successful supermarket operators and outstanding leaders in their communities.

One of the most rewarding aspects is encouraging young people to set goals, develop their careers and to see their accomplishments. There is no question, when you look back on the life of Jack Mitchell that you know the American Dream is still alive and well.

Since 1945, Mitchell Grocery Corporation has been headquartered in Albertville, Alabama where it plays a vital role in the economic vitality of this close-knit community and has grown to become one of the area's largest employers.

Today, Mitchell Grocery Corporation services over 175 independent supermarkets in 5 states out of its 600,000-square foot distribution facility. Three generations of the Mitchell family have led the company's continuous growth and expansion into five southeastern states since its beginnings in two downtown Albertville store fronts.

Jack Mitchell receives the AGA Wholesaler of the Year Award.

The wholesale division of the company has approximately 550 employees and in 72 years of doing business has ever had a layoff. The retail division has over 1,500 employees with 32 company owned retail stores and there are over 100 employees that have been with the company for 20 years or longer.

The company has always been based on integrity, high moral stands and treating all customers, suppliers and employees as family. Jack Mitchell was a true friend to the independent retail grocer, spending a career doing whatever it took to help the independent grocer grow and prosper.

AGA NEWS

“The grocery industry in Alabama lost an amazing person, a true entrepreneur and a visionary that loved his state, his community and his family. When you would meet with Jack you could always see the love of the grocery industry wash over him as he told you countless stories. It was an honor to know him and to pleasure to work with a founding member of the grocery industry in the State of Alabama," said Ellie Taylor, President, Alabama Grocers Association.

Jack served on the Board of Governors of the NAWGA (IDA); past president of the Alabama Wholesale Grocery Association; Director on the Albertville Municipal Utilities Board; Director on the Retail Bank Board of Directors and Director on the Tennessee Walking Horse Trainers Association.

In 1999, Jack was honored with the National Grocers Association Spirit of America Award. The NGA Spirit of America Award, established in 1982, honors key industry and community figures who have provided leadership in the areas of community services and government relations on behalf of a free and independent food distribution system. In 2006, Jack received the Alabama Grocers Association Wholesaler of the Year Award. This award recognizes deserving individuals in the wholesale distribution industry who provide leadership, excellence in their field, a passion for the grocery industry and are an advocate for the Association and the state of Alabama.

Jack is the father of three children; Karen Algie, David Mitchell and Jay Mitchell. He is the grandfather of 10 grandchildren and a great-grandfather of seven great grandchildren. Jack’s favorite hobby was the Tennessee Walking Horses.

For many of us that knew Jack Mitchell, he helped countless people start their careers and mentored numerous people on their path of success. He took pride in the success of others and will always be remembered as a friend to the independent grocer.

Tom Wenning, NGA, presents Jack Mitchell with the Spirit of America Award.

Jay Mitchell with U.S. Sen. Richard Shelby.

The Mitchell Family has requested that the Jack Mitchell Memorial Scholarship Fund be endowed in his name.

To donate, please visit www.AlabamaGrocers.org or make checks payable to the Alabama Grocers Education Foundation, 300 Vestavia Parkway, Ste. 3500, Birmingham, Alabama 35216. 205.823.5498.

VIEWPOINT

APRIL FOOLS

KEVIN COUPE
FOUNDER, MORNINGNEWSBEAT.COM

REALITY JUST ISN'T WHAT IT USED TO BE. GO FIGURE.

There are a number of stories that have popped up recently that I think illustrate ways in which the world is changing, and why leaders in the food industry need to pay attention.

For example...

I was amazed the other day when I saw that it has been 10 years since the introduction of the iPhone. Amazed, in part, because 10 years seems like a long time, and in some ways it seems like yesterday that Steve Jobs stood on that stage and wowed the crowd. (For that matter, has it really been almost a half-dozen years since Jobs passed away?)

That original iPhone had something like 500 apps. Now, there are 2 million available apps for the iPhone, and 2.2 million apps for Android smartphones, and it is fair to say that the smartphone has changed our lives.

But here's the thing. There never would have been so many apps had companies like Apple tried to do them all in-house.

And ironically, opening up the App Store to outside developers – the decision that essentially jump-started the smart phone industry and gave it so much momentum – was something that did not come easily to Steve Jobs, who preferred to control pretty much everything. He was used to doing business a certain way.

Which shows that even the most enlightened, progressive, forward-thinking and legendary businessperson can be myopic. But he was able to get beyond that mindset. He was able to grow.

That's what every business needs to do. It's what business leaders need to do. (As opposed to business managers.)

The more specific lesson in this case is the importance of collaboration with third parties as a way of making any single product or service more robust simply because there is interconnectivity. The vast majority of organizations have to be nimble enough to work with other organizations, which ends up making them both more relevant to shoppers.

iStock

That's an important lesson for retailers. It isn't a crime to be myopic, but it is a kind of business malpractice not to try to get beyond that mindset.

That's a lesson that even Steve Jobs learned.

My friend Tom Furphy of Consumer Equity Partners (CEP) puts it this way: "Companies that follow the old school mindset of 'this is how we do things around here' or 'we build everything in house' will struggle in the coming years."

"It will be difficult for them to be agile and impossible to serve customers in ways that they will demand in this rapidly changing environment."

Now compare the iPhone's 10th anniversary to this more sobering story.

After five years of steady, unrelenting declines, research firm Gartner says that the BlackBerry now has a market share of – wait for it – zero.

That's right, zero. Zip. Nada. Nil. Zilch.

Think about this for a moment.

At one point, BlackBerry was on top of the world, but for a wide variety of reasons, it got leapfrogged in terms of hardware and software by the iPhone and the Android phone.

Now it is virtually dead. One can argue that the folks at BlackBerry didn't see the importance of continued innovation, didn't pay attention to the changing marketplace, and got complacent about the leadership position the company enjoyed. Or all of the above.

There was a time when the word "CrackBerry" was coined to illustrate how addicted users were to their BlackBerry devices. Well, it ends up that it indeed is possible to break that addiction…and in a lot of ways, the company that came up with the cure was BlackBerry. Because it stopped being relevant.

Speaking of relevance...

The Nielsen Co. recently released research projecting that by 2025, the share of online grocery spending could reach 20 percent, representing $100 billion in annual consumer sales. That's total store…and it is the equivalent of the volume done by thousands of bricks and mortar stores.

There also was research suggesting that during that same time frame, the industry should expect that four out of 10 dollars spent in center store will then will "migrate to an online shopping experience."

Those are big numbers. Even if Nielsen is only half right, the numbers are considerable, and the impact on the retail food industry will be enormous.

The question is, how many traditional companies in the food business are ready for this?

Are you?

Experts tend to believe that while we're still in the second or third inning when it comes to e-grocery evolution, momentum – generated by both technology and accelerating consumer demands – means that we may be as far as half way "there."

What nobody knows is where and what "there" is.

I suspect that the winners will be the ones who have a vision, but also are nimble enough to understand that "there" may mean something different when you're in the fourth inning than it does when you're in the seventh.

But I absolutely believe that leaders and companies at least have to have some sort of strategic sense of where "there" is for them, and have to be completely committed to moving organizations in that direction.

This means being willing and able to establish networks that make the whole bigger than the component parts. It means being willing to go against established business practices to try new things. It means never being complacent. Always seeking relevance. Accepting the fact that things never will be the same again.

We have no choice but to do these things.

No fooling. ■

OUTSIDE THE BOX

NEW RETAIL PERSPECTIVES

GOING, GOING, GONE?

iStock

There's no doubt that independents are a strong force in retail, but change can come to anyone. Witness New York City where the number of family-owned grocers less than 7,000 square feet dropped about 8 percent over the past decade, or about 300 stores, according to a study by Strategic Resource Group.

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When Smaller Is Better

Going into smaller marketing areas doesn't necessarily mean downscaling operations. Over the past decade, boutique hotels have exploded and now they are going into small cities like Bethlehem, Pa., and Sewanee, Tenn., and focusing on attracting younger travelers who want more personalized, social spaces.

It's an Uber World

Lately, everyone wants to be known as the "Uber" of something – even laundry. Electrolux, the Swedish appliance maker, is exploring the idea of having consumers use their own washing machines for other people's clothes. The company is looking into options like having people share their unused laundry time and an automatic oven that would cook beef until it's rare rather than having consumers set the time and temperature.

iStock

S-Commerce

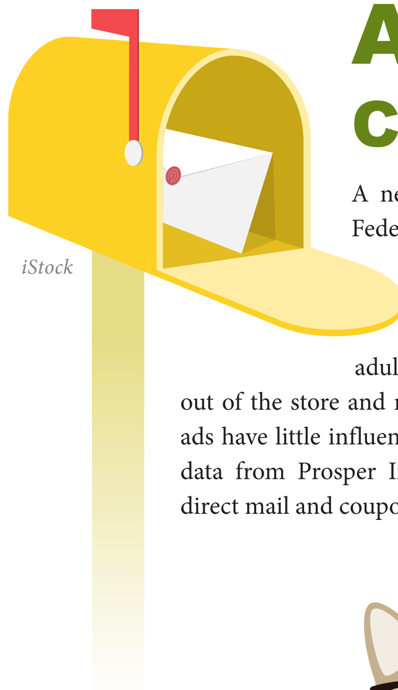
At this point no one doubts the power of e-commerce which now represents over 7.5 percent of all retail revenue and rising steadily. But this is spawning an entirely new industry – subscription boxes. Millions of consumers now pay a monthly fee for regular delivery of everything from food to cosmetics. It is emerging as the ultimate expression of convenience.

iStock

Time to let *go?*

iStock

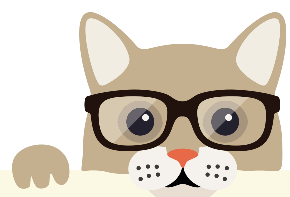
Sometimes it's best to bite the bullet and realize when you've held onto things – or stores – too long. That's the position of Marks & Spencer, which has been losing market share for years. As a remedy, the chain developed a massive five-year store-closing program in the UK and overseas markets – including its iconic store on Paris' Champs-Élysées, proving that profits trump panache any day.



iStock

Ad-verse Conditions

A new study by the National Retail Federation indicates that ads on shopping carts and at the checkouts may be fairly useless. The reason is that adults are more interested in getting out of the store and managing kids. As a result, these ads have little influence on them. The study, based on data from Prosper Insights & Analytics, found that direct mail and coupons have a bigger influence.



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Pet Bonanza

Do people spend more on their pets than their kids? Fung Global Retail and Technology reports that pet industry sales are set to increase 4 percent this year to about $62.75 billion. Gains are expected in all categories including food, accessories, OTC medicines and vet care services. But this isn't all. Technology-enhanced products, including cameras and wearables are attracting attention.

Mi Casa, Su Waffles!

Food delivery for lunch and dinner isn't new. But if you're craving waffles there's a new delivery service for just that. Smash Waffles has begun operating out of Greenville, N.C. and uses private commercial kitchens to make waffles which are then delivered to customers. They have a regular weekly lineup and weekly special flavors smashberry, a blueberry waffle stuffed with whipped cream and topped with cream cheese icing and shortbread crumbles. Waffles sell for about $15 per half dozen or $21 for a full dozen, plus delivery fee.

iStock

TALKING ABOUT TAXES...

JENNIFER HATCHER
SENIOR VICE PRESIDENT
GOVERNMENT AND PUBLIC AFFAIRS
FOOD MARKETING INSTITUTE

HOW WOULD YOU LIKE TO SEE YOUR TAX RATE GO FROM 35% OR 39.6% DOWN TO 20% OR 25%?

Sometimes questions that seem to have a very obvious answer need further reflection.

The opening of the 115th Congress with a Republican-controlled Senate, Republican-controlled House of Representatives and a Republican President has created a potentially once-in-a-generation opportunity to achieve broad-based tax reform, similar to the kind of change achieved 31 years ago with the Tax Reform Act of 1986.

While there isn't any official legislative language yet to help us understand what this reform might look like, House Republicans have issued a "blueprint" that offers insight into the direction they are heading. Some of the ideas discussed are very good for food retailers, and other parts require further scrutiny.

Good:

100 percent first year expensing for business investments;

The elimination of taxes on export revenues;

The elimination of the estate tax;

Possible parity for online and brick and mortar taxation (Main Street Fairness) (not currently part of the plan).

Potentially Negative Impact:

Border adjustability tax;

Ensure LIFO is not tapped for revenue (not currently part of the plan);

Repeal of most business deductions, except for the R&D tax credit;

The elimination of the deduction for interest payments.

One of the most controversial aspects of the House blueprint is the inclusion of a "border adjustment tax" (BAT), which is expected to raise more than $1 trillion over a decade.

Although this proposal will be subject to change as it is converted into a legislative document that will need to pass both the House and Senate, it does provide valuable insight into the direction congressional leadership will move.

As such, it is vital that the food wholesale and retail industry takes the time to understand and model how this proposal, along with all of the others, will impact individual companies so that we can offer members of Congress an accurate picture of how their plan will impact the industry.

The BAT included in the House proposal eliminates the deduction for "cost of goods sold" (COGS) for imported products and taxes it at the new marginal rate (20 percent for "C" corporations; 25 percent for "S" corporations and pass-throughs).

Calculating the impact a BAT will have on your tax bill is thus a fairly straightforward process that a company can undertake using a previous year's numbers or future projections (if they are detailed enough). You simply need to know the COGS for imported products.

Figure 1

TEMPLATE FOR ASSESSING POTENTIAL IMPACT OF TAX RETURN

Income Subject to Federal Tax	$
Tax Rate (35% or 39.6%)	x %
Federal Income Tax Owed	=

Income Subject to Federal Tax	$
Add Back COGS for Imports	$
Tax Rate (20% or 25%)	x %
Federal Income Tax Owed	=

Of course, Figure 1 just gives you the dollar amount that the BAT will add to your tax bill. The other pieces of the House blueprint will also need to be modeled or considered to give an overall picture of what the proposal might mean for a company.

So a more complete model might look like Figure 2. ▪

Note: Pass through owners may also want to consider that the House plan will also repeal the estate tax and the impact that might have on their planning and expenses.

This initial House Republican tax reform blueprint is available at: www.bit.ly/28VOwvf

Figure 2

HOUSE PROPOSAL WITH ADDITIONAL PROVISIONS

Income Subject to Federal Tax (Current Law)	$
Add COGS for Imports	+ $
Subtract Current Export Income	– $
Add Interest Deduction Taken	+ $
Subtract Capital Investments (100% Expensing)	– $
Add Other Deductions (Other than R&D credit)	+ $
Subtotal - Income Subject to Federal Tax	$
Tax Rate (20% or 25%)	– $
Federal Income Tax Owed	$

DON'T UNDO DEBIT CARD SWIPE FEE REFORM

PETER LARKIN
PRESIDENT AND CEO
NATIONAL GROCERS ASSOCIATION

CONGRESS ENACTED DEBIT CARD SWIPE FEE REFORM, ALSO KNOWN AS THE DURBIN AMENDMENT, AS PART OF THE DODD-FRANK LEGISLATION IN 2010.

But since this legislation was passed, U.S. merchants continue to fight for transparency and competition in the credit and debit card industry. Prior to the 2016 elections, Chairman of the House Financial Services Committee Jeb Hensarling (R-TX) rolled out a Dodd-Frank reform package (the Financial CHOICE Act) that included a provision to repeal the Durbin Amendment.

While the House did not bring the legislation to the floor for a vote, NGA is preparing for a renewed push in support of a similar bill in 2017. At the time of this writing, Chairman Hensarling is expected to re-introduce the CHOICE Act as early as April of this year.

The Durbin Amendment, which NGA supported, placed a cap on debit card swipe fees for the largest banks and introduced competition into the debit routing system. For retailers and merchants, swipe fees are their fastest-growing expense, despite technological improvements that have made it much cheaper for banks to process such transactions. Swipe fees typically exceed a grocer's profit margins – and that's just not sustainable.

Even more frustrating about this situation is that Visa and MasterCard are exercising their market power to squeeze out any hope for transparency and competition. The fees are centrally fixed, with no input from retailers, by credit card companies and not adequately disclosed to retailers or their customers.

And the banks issuing cards under the Visa network, for example, all agree to charge the same fees, eliminating any possibility for competition or negotiation.

Repealing the Durbin Amendment would only serve to increase profits for big banks while hurting businesses and consumers. As an industry that operates on profit margins between 1 and 2 percent supermarket operators have seen the benefits of increased transparency and consumers have seen the benefit of competition that debit card swipe fee reform has brought to the marketplace.

Lower debit swipe fees have allowed supermarkets to pass along savings to consumers in the form of extended sales and have allowed grocery stores to maintain consistent prices even during shortages that would otherwise result in price spikes.

Consumers have also seen benefits in ways that directly contradict the predictions of the banks. Economist Robert Shapiro has noted that consumers saved more than $6 billion in the first year after the Durbin Amendment went into effect. And, banks continue to insist that the Durbin Amendment would be the end of free checking for consumers, but free checking has increased from 53 to 61 percent since Durbin was implemented, according to the American Banking Association's own numbers.

The Durbin Amendment has worked for consumers and businesses for the last six years and began to introduce competition into a system dominated by two major companies. We need to ensure more competition within the debit market – not remove it. ▪

The Durbin Amendment was a step in the right direction, now is not the time to take two steps back. Tell Congress yourself at www.grocerstakeaction.org


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BUILDING

THE IOT IS DRIVING THE INTEGRATION OF EVERYTHING

BY CRAIG ROSENBLUM

In real estate the mantra is: Location. Location. Location. For retailers, regardless of segment, the mantra for 2017 is: Integration. Integration. Integration.

The internet, combined with smart devices, is fueling the integration of everything. Smart phones are integrated with smart homes. Smart appliances are being integrated with other smart devices—and these smart appliances are rapidly gaining acceptance. Parks and Associates estimates that 18% of U.S. households will own a smart appliance by the end of the year.

The Big Tie-In

I know you're probably wondering how smart appliance have anything to do with your business. The answer is "everything" because these devices will change purchasing behaviors. Consider Samsung's smart fridge, a 2016 Honoree of CES' Innovation Award, which is integrated with notification systems, reordering systems, food management, calendars, and more. The smart fridge features a wi-fi enabled 21.5" built-in tablet that is integrated with the following:

Cameras that take snapshots of the fridge's interior. These cameras are integrated with your smart phone so you can take a "refrigerated inventory" anywhere, anytime.

The integrated tablet can also place and pay for orders through an arrangement with MasterCard. This means the smart refrigerator will become another customer touch-point.

Samsung's smart fridge also provides recipes and maintains shopping list, providing yet another conduit to the shopper.

No more pictures held in place with flamingo magnets or crossed out To-Do lists since the smart fridge displays high-definition, digital images as well as your To-Do list, which is also integrated with your smart phone.

RT CITY

MORROW'S CITIES

Integration of Everything, Including People, Processes, and Data

The IoE is just that...Literally. Because integration begets integration. For example, a friend of mine recently received an Amazon Echo for his birthday. He immediately integrated it with his Amazon Prime account as well as his Spotify account. By integrating his Amazon

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◄ *Continued from page 29*

Prime account he can place orders simply by asking Alexa, Echo's digital assistant, to buy such-and-such. Therefore Amazon's Echo is another integrated, customer touch point.

Within the same week of his birthday, he added smart home skills-giving Alexa the ability to control lights and TVs. His next "skill," which is Echo-ese for adding a new capability, is to integrate his garage door opener and security camera. While this is a small scale example, it accurately illustrates the snowball effect of integration. Innovation follows a similar path and often shares a symbiotic relationship with integration.

Intrigued by my buddy's relationship with his new digital assistant, I began wondering (and researching) about the device's impact in the CPG space. One key factoid I discovered is that:

Echo buyers are heavy Amazon purchasers across all categories, but a purchase of an Echo device was followed by a seven percent increase in spend per person on CPG items.Source: Slice Intelligence, Amazon Echo: Seattle's sonic boom is felt beyond eCommerce, by Ken Cassar

The IoE Calls for an Industry Reset

Success in 2017 will be driven by those who break free from silo'd thinking and traditional, myopic perspectives. The winners for the year ahead will keep the IoE top-of-mind as they work to improve organizational structures, create new capabilities, and redefine their path-to-market.

At the center of most trading partners' re-engineered strategies is the shopper and shopper data. But not just historical shopper data that identified "who bought what from where." New insights will be extracted from big data.

Of course this includes transactional data; however, it will also integrate non-transactional data such as size of household, income range, social messaging, click-patterns, basket analyses, cart abandonment, etc. In other words, transactional and non-transactional data will provide 3600 views of shoppers.

This will connect shopper behaviors with the shopper's journey, while providing the needed resources for optimizing promotions through personalization.

Other areas impacted by the IoE

In additional "big-picture" transformations, look for integration to become the norm in the following areas:

- Marketing and Merchandising
- Trade and Consumer Spending
- Health/Rx and Shopper Consumption
- Supply Chain Production to the Shopper
- Technology-Enabled Shopping Experience

Marketing and Merchandising

Shopper data can no longer reside solely in the marketing department. Merchandising needs these insights to develop strategic and tactical game plans that satisfy the wants, needs, and desires of their shoppers. Shopper purchasing data, combined with behavioral data, will impact pricing strategies, promotion planning, product assortment and space allocations. These decisions will help retailers improve their competitive position by making their localization efforts more granular. Specifically, shopper data will be used to improve performance for price zones, geo-demographic clusters, and ultimately each individual store.

Trade and Consumer Spending

Trade dollars will become integrated with consumer spending as the lines between online and in-store purchases continue to blur. By blending trade allowances with consumer promotions, trading partners will have more resources to apply towards their personalization efforts. Unique offers will most likely be allocated by some form of customer segmentation.

For example, core shoppers (the most loyal) may receive offers that promote deeper store penetration, while potential shoppers receive offers that stimulate store visits and channel conversion. On the other hand, CPG manufacturers need to validate returns on their co-funded allocations using scanner data.

Manufacturers also need to validate the impact of their funds using non-transactional data such as social engagements, click-rates, time on page, and total media value.

> **"SUCCESS IN 2017 WILL BE DRIVEN BY THOSE WHO BREAK FREE FROM SILO'D THINKING AND TRADITIONAL, MYOPIC PERSPECTIVES."**

Health/Rx and Shopper Consumption

Disease states and Rx will get integrated into the total store versus being limited to the pharmacy. Many banners have in-store dieticians that can help consumers improve their eating habits or support integrative medicine techniques that may include dietary guidelines and exercise along with conventional medicines.

This is also where new products become integrated with new lifestyles. Awareness of healthier living is being fueled by businesses, as well as by healthcare professionals, manufacturers, and retailers. David Mounts, Inmar Chairman and CEO, recently discussed the advantages of healthier eating on Triad Today.

Supply Chain Production to the Shopper

Store-level shopper data will also create supply chain efficiencies by determining product allocations based on purchase behaviors. For example, stores with a predominantly price-sensitive customer base will require larger shipments since this consumer segment buys more "on deal."

Larger shipments will reduce out-of-stocks and improve COGS by reducing the number of deliveries. Conversely, stores with shoppers that are less price sensitive should receive fewer deliveries and less shipments to minimize spoilage and returns.

Technology-Enabled Shopping Experience

Now that the shopper is the center of the retail universe, trading partners will collaborate more by developing shared goals and objectives. Each will integrate True Profitability into their decision-making processes. They will also share shopper information in order to drive engagement in-store and online as they work collectively to deliver a seamless shopping experience.

Channel blurring combined with digital commerce led to omnichannel retailing. However, channel boundaries continue to dissipate while in-store shopping continues to fuse with eCommerce. Traditional retailers are becoming click-and-mortar retailers, while pure-play eTailers like Amazon are opening physical stores—giving more proof that the IoE is reshaping retail. Perhaps this transformation, combined with consumer-centric digital communications, will settle the omnichannel debate by referring to today's retail landscape as unichannel. Or better yet... How about we call it "retail?"

To learn more about improving performance using shopper analytics, contact Craig Rosenblum at **craig.rosenblum@willardbishop.com**

MERGERS & ACQUISITIONS

Who's Next?

By Len Lewis

The year 2017 is not likely to be record-setting for merger and acquisition activity in the grocery industry now that mega-mergers like Ahold/Delhaize, Walgreens/Rite Aid and Albertsons/Safeway are complete.

But after five years of consistent – albeit slow – economic recovery, relatively low interest rates and strong availability of capital, the stage is set for another round of consolidations with action centering around robust regional chains and independents who will continue to suffer the most from the e-commerce juggernaut, alternative formats like Aldi and the entry of Lidl, and the need to create niche stores in order to remain competitive.

Looking at the entire M&A ecosystem, surveys by Citizens Commercial Bank found that 53 percent of sellers are involved in or open to making a deal in 2017, up from 34 percent last year.

Additionally, 25 percent of organizations are confident that their company will be acquired this year. This rush to buy is basically due to increased pressure to show revenue growth after several years of not being able to do it organically.

The percentage of potential buyers and sellers was lower prior to the presidential election since little change in the business environment was expected no matter which party came to power.

Continued on page 34 ▸

◂ *Continued from page 33*

However, the potential of lower capital gains and estate taxes under the new administration, as well as hints of a less restrictive regulatory environment, have led to a post-election rise in equity markets in anticipation of accelerated economic growth – an indication that company valuations have yet to peak, the report said.

Moody's Investors Service believes that because of pent-up demand, continuation of historically low interest rates and growing piles of cash will spark a good year.

According to a recent Moody's survey the vast majority of corporate and private equity respondents projecting that 2017 will mark a rebound in M&A activity.

"Every regional chain that does not have a distinct format and operates conventional stores could be a candidate for a business combination in the next five years," according to David Schoeder, a principal in The Food Partners, Washington-based investment bankers. He deems it unlikely that retailers will look outside grocery retailing for acquisitions.

"There are private companies that have multiple investments, but I don't view this as a core strategy," he said. "If your company has capital constraints, you want to focus on growing your core business to avoid top line erosion and increased operating expenses."

There have been a couple of notable exceptions – both from Walmart.

In August, the company acquired Jet.com for $3 billion in cash and shares. The idea behind this acquisition was to build up and complement Walmart's existing online efforts and position the company for faster e-commerce growth by expanding its customer reach, according to officials.

This was underscored by Walmart's purchase in January of online footwear retailer ShoeBuy for about $70 million, which could further bolster Jet.com's business and relieve some of the pressure being put on Walmart and other retailers by Amazon.

On another front, but just as impactful to retailers, is continued consolidation in the manufacturing sector.

"The major CPG companies have seen a material erosion in the value of their brands as private label penetration increased," Schoeder said. "Driven by Walmart, manufacturers had fundamentally changed attitudes, behaviors, practices of the traditional grocery sector to reduce costs, and maintain their return on invested capital and market share in the U.S.

"Continued consolidation of CPG companies is anticipated primarily to create synergies by eliminating duplication of sales forces and consolidation of food processing facilities," he added.

However, retail industry observers are quick to point out that grocery is only one part of a larger global M&A ecosystem which is also the result of five years of stable growth and the accumulation of massive cash reserves, giving corporate executives the confidence and the means to pursue acquisitions.

Schoeder believes 2016 was a year of transformation for merger activity in the grocery business. More stores traded hands because of large deals like Ahold/Delhaize, Walgreen's purchase of Rite Aid and Supervalu's sale of its discount Save-A-Lot brand.

"There's not a lot more that can be done at the top," he said. "So the next round of consolidation will affect the regional chains. Chains like HEB or Wegmans that have a well-defined identity will continue building on their own rather than growing through mergers or acquisitions."

But there is a new class of "super independents" emerging that are on the prowl for good buys.

"As a rule they have in excess of $500 million in revenue, a quality management team and sufficient cash flow to reinvest in existing stores and fund rapid growth," said Schoeder.

"Not only have they been able to take retail locations discarded by major chains and niche them for specific markets, but they have also been the buyer of choice for smaller independents that have elected to sell their stores over the last 15 years," he said. "That's why super independents are commonly referred to as Pac-Man because they continue to make acquisitions in adjacent markets to expand their marketing territory."

We are also seeing a shortfall in next-generation ownership, indicating that more individual stores and chains may be up for grabs as owners, some of whom may be nearing retirement, take advantage of a strong market to exit the business, Schoeder said.

"A lot of people now in their 60s who got into the business as store managers for companies like Safeway or National Tea are reaching retirement age," he said. "Other than a few alternative formats that have sprung up, how many people are getting into the business to build a company? I only know one guy and he's not happy!"

A number of factors were responsible for driving merger activity last year, said Schoeder.

"The primary reason was the need to achieve economies of scale by eliminating one set of back offices to remain competitive," he said. "Some chains are focused on operational

"Super independents are commonly referred to as Pac-Man because they continue to make acquisitions in adjacent markets to expand their marketing territory."

efficiency in order to make the numbers and give investors an adequate return.

On the other end of the spectrum, independents are focused on differentiation by store and customer intimacy in order to get an adequate rate of return.

"I think Albertsons and Safeway are among those that have learned that you have to drive the business on a regional basis and create niche stores," Schoeder said. "Clearly, you can't take every grocery store in the U.S. and make it look like a Safeway. From that standpoint they are doing things right."

Schoeder, along with other industry observers, believes that the Ahold/Delhaize merger was something of a high-water mark.

"This was a particularly good deal that involved minimum divestitures," he said. "And with the exception of some Atlantic states, they now go from Florida to Canada."

Looking ahead, 2017 promises to be active for the entire merger and acquisition community.

in the next 10 years depending on where you operate," Schoeder said. "So in 10 years with inflation, operating expenses will go up and the top line will go down 10 percent. The world is becoming more competitively priced."

Since the industry has pretty much automated everything it can, he expects that e-commerce will drive more consolidation because of the top line impact as well as margin compression.

"Increased operating expenses are fine as long as everyone in the industry is facing the same thing," he said. "But the 10,000-pound gorilla called e-commerce eliminates the need to put products on shelves or run them through cash registers. The question is whether consumers are so time starved they don't care about delivery costs and are willing to pay for the convenience."

But you need population density in order to make an e-commerce solution successful.

"However, companies are taking a more disciplined approach to it. In the past acquisitions were driven by synergies and people wanting to increase their geographic footprint," Schoeder said. "Today, companies are more focused on sustaining sales and enhancing the store."

Consequently, whether companies are in the market for turnaround situations is questionable.

"If they're public yes, if private no," he said. "The jury is still out on whether Kroger's acquisition of Roundy's was a good thing or not. The Pick 'n Save stores in Wisconsin were a turnaround situation. Kroger was enamored with Mariano's, which are lovely stores, but the question is whether they can they make them profitable enough. They are putting their systems and marketing approach in place. I don't think we'll know the outcome for at least 12 to 24 months."

"Over the next 12 to 24 months it is the e-commerce business that will set the tone for acquisition and merger activity for the next five years."

But won't involve the same volume of stores in the grocery industry," he said. "In 2015 the average deal peaked at 71 stores and a total of 4,164 stores traded hands. We'll probably average 40 transactions per year for the next five years."

Schoeder doesn't believe the political climate will have much effect.

"A lot of people in the industry felt their world was coming to an end due to increased regulations, specifically from the Department of Labor," he said. "But there's not much on the regulatory front."

While inflation will be a major factor in accelerated consolidations in 2017 and beyond, the continued rise of online retailing is an overriding issue.

"One of the things that drove 2016 was the acknowledgement that e-commerce will take five to 15 percent of grocery store sales

Unless robotics is used to solve the picking problem it's hard to employ people full time at a distribution center.

"Every grocer in the country has spent a ton of money trying to figure out e-commerce. You have to have it to compete but most have not been successful. Over the next 12 to 24 months it is the e commerce business that will set the tone for acquisition and merger activity for the next five years," he added.

This will be the same for chains and independents with between one and 25 stores, according to Schoeder.

"Some of this activity will be below the radar since there's a lot of one and two store deals being done that never rise to the level of being published," he said.

Despite all the optimism in the marketplace, the criteria for a good acquisition have not fundamentally changed.

Meanwhile, the jury is still out on whether the growth of alternative formats – specifically the entry of Lidl and continued expansion of Aldi – will have a significant impact on industry consolidation.

"My concern is that Lidl could do a lot of damage to markets before they prove or disprove their model works. My understanding is they're not picking 'A' sites and poor site selection was one of Fresh & Easy's problems," Schoeder said. "For the most part they're putting stores in urban markets primarily dominated by chains. That strategy is not going to drive merger activity."

Schoeder added that health and wellness trend is also going to drive consolidation.

"Aldi got the memo," he said. "But those operating conventional groceries without that twist are becoming less relevant at an accelerated pace. They're prime candidates for consolidation." ▪

15 MINUTES WITH...

DEBORAH WEINSWIG

MANAGING DIRECTOR
FUNG GLOBAL RETAIL AND TECHNOLOGY

BY LEN LEWIS

Deborah Weinswig is Managing Director of Fung Global Retail and Technology who travels extensively and is considered one of the top analysts in the field of retail innovation and technology. We caught up with her between flights to talk about everything retail.

AGA: There's a lot of talk about the customer experience in retail. For someone who works with all retail segments, What does this mean to you?

Weinswig: "There's been a lot of focus on the in-store experience, but it's more relevant in discretionary sectors like apparel and beauty than a nondiscretionary sector like grocery. Retailers must be judged on the overall 'experience.' That can mean anything from getting an online order quickly and conveniently to walking out of a discounter knowing you got the best price."

What do you think it means for supermarkets?

"I think the in-store experience comes behind fundamentals such as proximity, product availability, choice and especially price, in terms of shoppers' priorities. If store experience was highly important, Whole Foods Market would be flying; instead, it is faltering and no-frills discounters are growing."

If we're looking for lessons from non-grocery retailers, who typifies the best in-store experience?

"Apparel and beauty are the sectors where in-store experience is most important. It can build a brand image and provide the tangible experience that inspires discretionary spending. In mass market apparel, some retailers consistently outrank many of their peers."

Can these experiences help battle online sales?

"It depends on the quality of the experience. And the 'experience' doesn't suit all shopping missions. It's mainly relevant in the discretionary sectors, where consumers are choosing to shop – not having to shop. Basically, we're going to see three types of shopping to complement e-commerce."

"APPAREL AND BEAUTY ARE THE SECTORS WHERE IN-STORE EXPERIENCE IS MOST IMPORTANT."

Who's in that group?

"H&M, Zara and Uniqlo offer consistent, quality store environments, even if the shopping experience isn't exceptional. Their standards and merchandising often overshadow those of some legacy players in apparel.

"Primark has great flagship stores in the budget segment, with elements like digital signage, great merchandising and conveniences such as phone-charging areas. Since Primark doesn't advertise, the stores serve a marketing function. When it comes to apparel retailers, Urban Outfitters and Anthropologie really stand out in building a retail brand."

What about the beauty segment?

"International players such as Sephora, Lush and Kiko successfully combine a premium experience with mass-market price points."

"First, are the convenience shoppers who make distress purchases of goods needed quickly, often at stores close to home. The experience will be less important to them. Then there are collection shoppers who go to stores to pick up online purchases. It's the destination or leisure shoppers who make trips to those stores that they like to visit rather than have to visit. This is where in-store experience will be key."

Should there be better integration of brick and click strategies?

"Most big retailers appear to be doing the right things. Walmart and Kroger are integrating online and stores at a lower cost than home delivery. Target's smaller stores complement e-commerce with edited collections and in-store pickup. Macy's and others are using RFID to get a full view of inventory across stores and distribution centers."

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Is it enough?

"For some of them, it's not. Some generalists have problems with theirs overall retail proposition and positioning in an age of near-unlimited choice, more specialized stores, coupled with ever more diverse consumers. An omnichannel offering is no panacea if your overall brand appeal is diminishing."

Robotics is a hot button but how relevant is it and are there hard benefits to any of it at this point?

"There are a number of interesting examples. Auchan in France will trial robots that follow customers in stores, and carry and check out groceries. Walmart has patented a system of self-driving shopping carts that scan, retrieve and deliver products, as well as check inventory.

"Just Eat, an online food ordering service in the UK is using self-driving robots to deliver food orders. But near term, robotics that push up productivity and help deliver omnichannel services are the most promising."

"INVESTMENT IN INVENTORY AND LOGISTICS IS ESSENTIAL FOR DIGITAL RETAILING."

Where does technology fit in?

"VR, AI and AR offer some promise to retailers further ahead. Near term, we see several pockets of opportunity. Technology that drives productivity such as self-scan, self-checkouts and automated collection points is appealing in a rising-wage environment. Automated distribution centers such as the one deployed by Hudson's Bay Co., and RFID enable buy-and-collect or reserve-and-collect strategies."

Should we focus tech expenditures on improving the supply chain?

"Investment in inventory and logistics is essential for digital retailing. RFID gives retailers visibility of inventory that enables pooling inventory across stores and distribution centers. It also underpins services such as buy-and-collect and reserve-and-collect.

"Logistics investments equip distribution centers for e-commerce and our research has looked at how much time digitalization of the whole supply chain can cut off the apparel supply chain. A traditional apparel supply chain takes about 40 weeks from design to sales. Digitalization has the potential to reduce that by 48 percent. That means digitalization could cut up to 19 weeks off the process, allowing apparel retailers to respond more promptly to changes in consumer preference."

With the growth of online sales, will we see more small format stores and how will this impact mall development?

"Smaller stores serve convenience and collection. There's still space for large, flagship stores as destinations for leisure shoppers. But we are likely to see fewer large stores overall, and some malls may see their anchor tenants close. High-end malls are doing well. However, at least 30 percent of U.S. malls, or more than 350 of them, mostly within the C and D classifications, need to be closed.

"Department store and specialty store operator are likely to close more stores in 2017 than they have in the past, and the bulk of the closures will be mall locations. We predict there could be several hundred department store closures in 2017, and that a number of retailers could file for bankruptcy, which would result in even more store closures. For example, most of the department stores like Macy's, as well as Banana Republic and Gap, will continue to close less profitable locations."

You travel extensively, what do you think are some of the more interesting formats you've seen lately?

"Amazon Go is among them. It's not going to prompt a revolution in the near term but I'm excited to see how it will pan out. We're waiting for the first U.S. Lidl stores to open. At around 36,000 square feet they will be much bigger than European stores and it will be interesting to see how they use that extra space."

How about internationally?

"In London there's a store called Missguided. It's the first physical store for this UK fashion pure play and one with real spectacle to appeal to young-fashion shoppers. Also in London is Estée Lauder's Estée Edit. It was designed for millennials by bringing together tech and experiences. It includes a selfie wall, a video wall showing user-generated content and a range of beauty services."

We've seen some pure play online companies move toward physical stores. Will this continue?

"It can be especially valuable for single-brand pure plays such as Bonobos and Warby Parker. These operators are brands as much as they are retailers, so opening physical stores is about bringing their brands to alternative distribution channels. At the same time, we think the pure play segment will remain very strong and there's little urgency for most online retailers to open stores." ▪

NUTS ABOUT NUTRITION

LARA BALDWIN
BLOGGER

TODAY'S PARENTS ARE UNDER PRESSURE TO BE MORE NUTRITION-CONSCIOUS THAN EVER.

If you're blissfully unaware of the madness of our generation, let me educate you: gluten is bad. Dairy is frowned upon (both are banned from my son's preschool classroom).

Sugar is a no-no. If there's anything worse than sugar, it's artificial sweetener. And don't even say the words high fructose corn syrup, artificial food dyes, or partially hydrogenated.

Make no mistake, this has affected our shopping habits in ways I'm certain are uniquely millennial.

1 **We have to be allergen-conscious.** According to the CDC, food allergies among children increased by approximately 50 percent between 1997 and 2011 and is only growing. Many schools are now nut-free. Milk, eggs, wheat, and soy are other hot-button areas of concern as varying levels of intolerance affect policies not just at school but also for sports, camps, and playdate etiquette. I can sleuth out a precautionary allergen label faster than you can say liability lawsuit.

2 **We don't buy soda.** I grew up with parents that wholeheartedly believed lemon-lime soda could fix any ailment, from a headache to a broken heart. Drinking soda wasn't just allowed; it was encouraged. Our fridge, and that of my friends and grandparents, were always stocked with a buffet of soda options. My kids? They don't know what soda is.

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3 **Instead, there's another bubbly beverage that has taken soda's place: seltzer water.** The calorie-free, sugar-free, sodium-free, artificial sweetener-free magic has assumed saintly status, with steadily climbing sales. The same moms who would never dream of letting their kids drink a cola will derail group discussions at book club to salivate over the newly released flavors from their favorite brand of seltzer.

4 **We are suckers for *organic* and *local*.** Just slap an organic label on that lollipop and my mom-guilt is slightly lessened.

5 **We visit multiple stores.** While my mom is still loyal to the local market we stopped in almost daily growing up, my approach is much more fragmented. I visit the bulk grocery store once a month, buy my fish and produce each week from another, and get all my kids' favorite snacks at yet another store. A highly scientific survey conducted on my Facebook page confirms that I am not alone – we need very specific products and we are willing to be highly inconvenienced to get them.

The modern obsession with nutrition has been both a blessing and a burden for parents. We're looking for a particular combination of quality and value that meets precise nutritional profiles, and that pressure has been passed on to retailers to meet these diverse demands. ▪


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